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Report No. P-1669-KO

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN  
TO THE  
KOREA DEVELOPMENT FINANCE CORPORATION  
WITH THE GUARANTEE  
OF THE  
REPUBLIC OF KOREA

July 1, 1975

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Currency Unit	=	Won
Won 485	=	US\$1.00
Won 1,000	=	US\$2.06
Won 1,000,000	=	US\$2,061.86

Fiscal Year = January 1 - December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO  
THE KOREA DEVELOPMENT FINANCE CORPORATION

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to \$55.0 million to the Korea Development Finance Corporation (KDFC) to be guaranteed by the Republic of Korea. Interest on the loan would be at 8-1/2 percent per annum. The loan would be repaid in conformity with a schedule based on the aggregate of the amortization schedules of KDFC's sub-loans, which would have a maximum repayment period of 18 years, including three years of grace.

PART I - THE ECONOMY

2. The latest Economic Report ("Current Economic Position and Prospects of the Republic of Korea") was distributed under cover of SecM75-437 dated June 9, 1975. The Country Data Sheets are attached as Annex I. An Industrial Sector Mission visited Korea in the fall of 1974; its report is under preparation.

3. Korea's economic performance over the last decade has been outstanding. It entered the sixties with one of the lowest income levels in the world; it had little experience of participation in international trade; and it lacked natural resources. Despite these unpromising beginnings, Korea embarked on a course of export-oriented industrial growth that has led to its recognition as one of the most successful examples of development. Its rich endowment with the human capabilities for economic success, the availability of considerable entrepreneurial talent, a social environment which is conducive to rapid economic change, and a national dedication to unambiguous economic goals, all contributed to Korea's impressive performance. In the period 1964-74, the GNP growth rate averaged 10 percent a year in real terms, reaching the record level of 16.5 percent in 1973. This, together with a decline in population growth (from about 2.7 percent per year at the beginning of the period to about 1.7 percent at present), caused per capita income to more than double in the period. The mainspring of economic growth has been the increase of manufactured exports (from about \$65 million in 1964 to over \$4 billion in 1974). The ratio of exports to GNP rose rapidly from 4 percent in 1964 to 27 percent in 1974, and the manufacturing sector as a proportion of GNP increased from 12 percent to 28 percent in the same period. Agriculture, despite an annual growth rate of about 3.5 percent during the last decade, declined as a proportion of GNP (from 43 percent in 1964 to 23 percent in 1974).

4. Total real investment grew ten-fold between 1964 and 1974, and the ratio of investment to GNP rose from 13 percent to 29 percent. External resource requirements also grew rapidly, averaging about 9 percent of GNP during 1970-71, roughly the same level as in the early 1960's. The marginal

saving rate during the last decade was 30 percent, which indicates that large capital inflows did not weaken efforts to mobilize resources domestically. However, Korea entered upon a period of rapid growth with a very low level of domestic savings and, therefore, the Government pursued a policy of relatively heavy dependence on external capital in the interest of a rapid acceleration of investment and growth. Moreover, since exports during 1964-74 were rising at an average rate of nearly 47 percent, the burden of additional external debt was not excessive, and the debt service ratio stood at around 13 percent in 1974.

5. Korea's performance in attempting to achieve a balanced distribution of the benefits of growth is also creditable. However, despite the fact that income distribution in Korea is generally more equitable than in comparable developing countries, the absolute gap in incomes between the urban and rural areas widened during the 1960's despite substantial migration to the cities, a modest reduction in the farm population, and high yields per unit of land under cultivation. Growth of labor productivity in agriculture was nevertheless considerably slower than in manufacturing. Since 1967, the Government has attempted to raise farm incomes and to provide other incentives for increasing foodgrain production through a price support system covering rice and barley. It broadened its efforts to achieve more widely and evenly distributed income growth by pursuing policies of decentralizing industry and emphasizing investment in the less developed regions. Also, in 1971, the Government initiated the Sae Maeul (New Community) Movement as a nationwide self-help program, aimed at increasing productivity and incomes (especially in the rural areas where nearly half the population still lives) and at improving the quality of rural life. Partly as a result of these various measures, average rural household incomes are now nearly in line with those of average urban households.

#### Recent Trends

6. During the last three years the Korean economic situation has been subject to sudden and sharp changes. Beginning with the latter part of 1972, the Korean economy experienced an unprecedented boom. 1973 was an exceptional year, even by Korean standards, and set new records of growth in GNP, exports and savings. In the latter part of 1973, Korean economic aspirations were expressed in terms of official targets for the early 1980's of \$1,000 per capita and \$10 billion of exports. The long-term strategy implied the continuation over the next decade of an overall rate of GNP growth of about 10 percent per annum but with reduced dependence, in relative terms, on net inflows from abroad.

7. The favorable economic developments of 1973 were interrupted by external developments in 1974. The sharp rise in the price of petroleum beginning in late 1973, the recession in the Japanese and U.S. economies in 1974, and the high level of foodgrain and other import prices, combined to bring about a major change in the short-term economic position of Korea. Owing to its poor natural resource endowment and because of its economic structure and growth strategy, Korea was severely affected by these

international developments. Merchandise exports now account for about 24 percent of GNP in Korea; and dependence on the Japanese and U.S. markets remains heavy, notwithstanding the Government's efforts to diversify export markets by encouraging sales in the Middle East, Europe and Latin America.

8. The higher costs of energy and food imports alone have placed a severe burden on the economy and the balance of payments. Korean dependence on imported fuels is not only extremely heavy but is also very closely linked to essential industrial and transport uses. The additional cost of petroleum added almost \$800 million to the import bill in 1974 (considerably more than twice the current account deficit in 1973) and a doubling of the prices of foodgrains increased foreign exchange requirements in 1974 by more than \$300 million, despite a decline in the volume of these imports. Together petroleum and foodgrains accounted for about 45 percent of Korea's increased import bill in 1974 and 25 percent of total import payments. The cost of imported raw materials and intermediate goods also increased appreciably and compounded the balance of payments problem. The magnitude of the effects of these adverse developments can be gauged by the fact that Korea's terms of trade deteriorated by 18 percent, or about 5 percent of GNP, in 1974 compared with 1973.

9. Notwithstanding the very serious terms of trade loss, the Korean economy might have been able to avoid a major slowdown but for a simultaneous setback to export growth. Real export growth, which had reached the peak of 52 percent per annum during 1972-73, slowed down to 9 percent during 1974 and may come down further to only 4 percent in 1975. This sharp decline in export growth is attributable directly to the deep recession in the U.S. and Japan, Korea's major trade partners. The volume of Korean exports to Japan is estimated to have declined by about 6 percent during 1974, and Korea's trade deficit with Japan widened to \$1.2 billion compared to \$0.5 billion in 1973. The volume of exports to the U.S. increased even in 1974. It is noteworthy that Korean exports to countries other than the U.S. and Japan showed a marked real increase of 40 percent during 1974, which if sustained will denote considerable success with the market diversification effort.

10. Imported inflation has also led to a very sharp upward pressure on the domestic price level. In addition to the sharply higher prices of imported petroleum and foodgrains, the average unit value of other imports increased by 45 percent during 1974. Consequently, the rate of domestic inflation accelerated; in calendar year 1974, consumer prices rose by about 26 percent and wholesale prices increased by about 45 percent. Since the middle of 1974, the rate of domestic inflation has slowed somewhat, reflecting seasonal factors, the slower increase in the prices of imported goods and the dampening effects of rising inventories of manufactured goods.

#### Government Policy Response

11. Until the end of 1974, the Government followed policies which were based on the premise that the economy should remain poised to capitalize on the worldwide economic recovery, which Korea expected would commence by

early 1975. Thus, the principal objectives of policy in 1974 were to ease the adjustment to higher oil and other import prices, while cushioning the impact of the recession to avoid unduly slowing domestic investment and employment growth.

12. In general, the Government has been committed to accepting necessary price adjustments arising from higher energy and other import costs; one major exception to this general policy was its unwillingness to place on consumers the full burden of higher import costs of basic foodstuffs. Thus, despite increases in prices paid by consumers for foodgrains, substantial subsidies are involved in the sale of wheat and rice. Complete avoidance of subsidies at a time of growing unemployment and declining real wages in manufacturing would have been difficult. Nevertheless, the Government fully recognizes the distortions in the price structure resulting from these large subsidies and is greatly concerned with the heavy burden they have placed on the budget. Thus, remodelling of the price structure is a major objective of the Government.

13. Selective credit measures to assist the most distressed industries were another element in the Government's effort to cushion the impact of recession in 1974. These measures were intended to enable industry to finance stocks of specified raw materials, and to carry raw materials and finished goods inventories that had become excessive as a result of the decline in export demand. Small- and medium-sized firms which were particularly hard hit by the onset of the recession were assisted by a large credit program embracing both working capital and investment loans. These firms also benefitted from a preferential (government subsidized) interest rate of 12 percent, 3 percent below the normal bank rate on such loans. Similarly, special subsidized credit facilities were made available to the machinery industries and to finance equipment purchases by export industries. All told, such programs provided credits totalling some W 200 billion (\$495 million), equivalent to over 20 percent of the increase in total credit to the private sector in 1974. Overall monetary policy, which had been made quite tight in the first half of the year, was significantly eased after mid-year. The increase in domestic credit in the second half of last year was more than double that in the January-June period and, over the year as a whole, domestic credit expanded by about 50 percent compared with an increase of only about 30 percent in 1973. However, owing to the contractionary influence of the external deficit, the money supply increased by only about 30 percent, compared with 40 percent in 1973.

14. In December 1974, the Government introduced a further set of special measures to offset the sluggish demand for exports and to relieve the liquidity problems of exporters. It expanded the program of export financing, undertook to purchase excess inventories of finished goods from industries particularly hard hit by the fall in export demand, and increased credits to exporters for the purchase of imported and domestic materials. On December 7, 1974, the currency was devalued by 17.5 percent to W 485 per U.S. dollar. The devaluation was not expected to increase exports appreciably because of the depressed state of Korea's overseas markets, but like some of

the other measures, it was intended to improve the liquidity position of manufacturing enterprises. It should also improve the competitive position of import substitution industries which had been weakened during the year. But the devaluation will also contribute to continued inflationary pressures in 1975. Among measures taken by the Government to help the low income groups are substantial income tax relief, a 30 percent increase in salaries of Government employees and the initiation of public works projects, mainly in the urban areas, to alleviate unemployment. The rural areas appear to have been hit less hard by the economic slowdown. The terms of trade moved further in favor of the farmers during 1974 as the support price for rice was adjusted sharply upward.

15. It was largely because of the efforts to sustain the 1973 momentum of growth that the real GNP rose in 1974 by more than 8 percent; sizeable gains were recorded in both consumption and investment. However, notwithstanding the support provided by Government, there was a sharp slowdown in industrial output, private fixed investment and export sales in the second half of 1974.

16. The impact of the adverse turn of events in 1974 was borne primarily by the balance of payments. The current account deficit widened from \$0.3 billion in 1973 to \$1.8 billion in 1974 and may be somewhat larger in 1975. Even this expectation assumes a substantial improvement in the latter half of this year, since the current account deficit in the first four months of 1975 alone amounted to \$1.2 billion; however, by April there were signs that import and export trends were coming into better balance. The financing of the 1974 deficit involved a very large reduction (\$738 million) in net international reserves (to \$300 million); so far this year the continued deficit has meant further reduction in net international reserves which are now substantially negative. The financing of the large anticipated balance of payments deficit for 1975 will require a major increase in disbursements of medium- and long-term loans.

#### Longer-Term prospects

17. Before the international developments of late 1973 and 1974, Korea appeared to be set on an economic course which could have led to its exceeding its long-range economic goals. However, the changes since the long-term framework was formulated in 1973 have necessitated a re-examination of both the objectives and the strategy. Although revised plans have not been completed, it appears that the target for the average annual increase in GNP will be lowered to 8 percent, and that the pattern of future growth will be somewhat different from that originally envisioned. Nevertheless, industrial development will remain an important element of the strategy. Greater emphasis is also being given to increasing agricultural production and rural incomes. Korea's developmental strategy will, of course, have to be kept under close and constant review, so as to adapt it to changing circumstances. The preparation of the Fourth Plan (1977-81) affords an opportunity for a careful reconsideration of strategy; the Government has

been extended financial assistance by the UNDP to meet the cost of consultants (and fellowships for Korean staff) to assist with preparation of the Plan during the next 12 months, and the Bank is acting as Executing Agency.

18. Korea will in all probability be capable of sustaining an annual growth rate of GNP of 8 percent during the next decade, provided the large external capital inflows required to meet the sizeable balance of payments deficits are available on reasonable terms. Considering that 90 percent of Korea's exports now consist of manufactured goods, that its links with the Japanese economy remain strong, that vigorous efforts are being made to penetrate new markets (especially in Europe and the Middle East) and that some progress has already been made in diversifying the industrial structure, a long-term real growth rate of exports of at least 12 percent appears possible even if world trade in manufactures should expand at a much slower rate. However, this would represent a substantially slower export growth than in the past, and Korean plans already envisage greater emphasis on import substitution in three key areas (a) foodgrains, (b) energy and (c) machinery production, all of which will probably mean sharply higher investment costs per unit of output.

19. The Government is aware of the need for careful monetary and fiscal management in the months ahead. The ability to contain the balance of payments deficits will depend partly on the speed of the recovery of exports and partly on the Government's determination to narrow the fiscal deficit and to reduce the rate of domestic credit creation. However, substantial reduction in the current account deficit is likely to take several years unless the upturn in the U.S., Japanese and other OECD economies is very sharp in the years after 1975. Finding the means to finance the external deficits will continue to be Korea's most urgent economic challenge. The servicing of the sizeable foreign borrowing required should not pose serious difficulties for Korea given the rates and the long-term prospects for continued export growth, provided that the proportion of debt incurred on short- and medium-terms and at high interest rates is not excessive. The debt service ratio stood at about 13 percent at the end of 1974. It is expected to rise moderately to around 16 percent by 1980 and decline to less than 15 percent by the mid-1980's.

## PART II - BANK GROUP OPERATIONS

20. As of May 31, 1975, Korea had received 20 Bank Loans and 8 IDA Credits, amounting in total to \$799.7 million in loans and \$107.0 million in credits (taking into account cancellations and the refinancing of one IDA Credit in a subsequent Bank loan).

21. Nearly one-half of the total has been for the transport sector -- \$219.7 million for railways, \$101.5 million for highways and \$80 million for ports. Of the \$130.5 million which has been lent for agriculture projects,



\$93 million has gone for irrigation projects, \$7 million for livestock development, \$10.5 million for the provision of medium and long-term credit through the National Agricultural Cooperative Federation (NACF), \$7 million for seeds production and \$13.0 million for an Integrated Agricultural Products Processing project. The Korea Development Finance Corporation (KDFC) has received \$95 million and the Korea Development Bank (KDB) \$60 million in Bank loans for relending to private industry.

22. Excluding one project that was subsequently cancelled, IFC had, by May 31, 1975, entered into eight commitments: five in the financial sector and one each in the fields of textiles, electrical and electronic products, and synthetic fibers, totalling (net of participations and cancellations) \$30.1 million. An investment in a tourism project has been subsequently approved. Currently, IFC has under advanced consideration a zinc smelting and a project involving the leasing of industrial equipment; under preliminary consideration are projects in the fields of steel products, cement distribution, electric motors, bearings, and tire manufacturing.

23. Korea's ambitious industrial development programs require large capital expenditures in the private sector, a situation which enhances the need for IFC presence. With the closer relationship established as a result of recent promotional efforts, we expect IFC's activities to continue expanding rapidly. IFC would seek projects that would: (i) result in foreign exchange revenues or savings; (ii) contribute to modernize or deepen the industrial structure; and (iii) increase value added in manufacturing.

24. As of May 31, 1975 about \$361.9 million of the total Bank lending remained undisbursed on effective Loans and Credits. The rate of disbursements has increased in recent months. Annex II contains a summary statement of Bank Loans, IDA Credits, and IFC Investments as of that date and Notes on the execution of ongoing projects. As indicated in the Notes, progress on project implementation is generally satisfactory, although difficulties have been encountered with some projects and most seriously with the Pyongtaek-Kumgang and Yong San Gang Irrigation Projects (Loan 600 and Loan 795/Credit 283, respectively).

25. The emphasis which the Government places on agricultural and rural development will be reflected in the programs for FY76 and FY77. A second livestock project, the second stage of the Yong San Gang Irrigation Project, the Okseo irrigation and regional development projects and the Miho Cheon and Naeseong-Cheon watershed development projects have already been identified and are under preparation; a rural infrastructure project and follow-on projects in agricultural credit and agricultural products processing are also being considered.

26. The development of the industrial and agricultural sectors and of exports will require concurrent infrastructural development. Although the transport sector will be given relatively less emphasis than in the past, the investments required are large, and thus there is considerable support for this sector in the proposed program.

27. The Government is intensifying its efforts to prepare projects suitable for external official financing in the fields of infrastructure, agriculture and regional development. The foreign exchange component of such projects is low, partly because they consist largely of civil works, and Korea's construction industry is efficient and well organized and wins an overwhelming proportion of contracts put out to international competition; its dependence on imports is expected to lessen in the future. Moreover, the country's capacity to meet its requirements of machinery and equipment from domestic sources is also increasing. Korea's need for official aid therefore cannot be met if financing is confined to the foreign exchange costs of projects. For this reason the Bank should continue to be prepared to finance, in appropriate cases, a portion of local costs.

28. The share of the Bank Group in Korea's total external debt (disbursed) outstanding at the end of 1974 was about 6.0 percent, and the share of debt service was of the order of 2.4 percent at that time. These ratios are expected to increase somewhat by the end of the present decade.

### PART III - THE INDUSTRIAL SECTOR AND INDUSTRIAL FINANCING

29. The industrialization strategy followed by Korea over the last decade was based on a recognition of the limitations placed on it by the country's relative lack of natural resources. Planning for the development of industry centered around the aim of expanding the export of manufactures rather than on concentrating entirely on import-substitution, as many developing countries had done in the early 1960's. An important ingredient in the success of this policy was the fact that formal education in Korea had by the 1960's reached a level comparable with that of countries with considerably higher income levels. This gave Korea the advantages of a skilled and adaptable labor force as well as the ability to quickly develop efficient managerial talent. Thus, Korea adopted a policy of developing labor-intensive industries such as textiles, clothing, electronics and plywood, whose capital requirements are modest. In this respect, it is noteworthy that the expansion of Korea's industrial structure in recent years (1970-74) absorbed only 23 percent of total fixed investment, and that value added per worker increased by about 10 percent per annum over the last decade, reaching about \$2,000 in 1974. The extent to which the Korean economy depended on its light industry can also be gauged from the fact that in 1972 it accounted for nearly 90 percent of the exports of the manufacturing sector and about 80 percent of the value of total merchandise exports.

30. This strategy served Korea well in a period of continuous growth, but it has also made Korean industry vulnerable in a time of recession. Korea's industrial plans in recent years have, therefore, been aimed at diversifying the economy and developing more integrated industries. Since 1970, over half of the total industrial investment has been allocated to chemical, petroleum and basic metal industries to ensure the supply of raw materials at stable prices. The establishment of Korea's first integrated

steel plant at Pohang (currently being expanded from 1 million to 2.6 million tons), the large shipyard at Ulsan, and the naphtha cracking plant and related operations at the Ulsan oil refining complex, marked the first steps in the deepening of the industrial structure.

31. The recent economic setbacks have necessitated a re-examination of the long-term development plans and the strategy underlying them. While the emphasis on increasing the share of heavy industry in exports and on enhancing the domestic content of manufactures remains generally valid, the program of heavy and chemical industries is being critically evaluated and reoriented to meet changing circumstances; some heavy industry projects have been deferred, if not altogether eliminated, especially those which are extremely capital and energy intensive and those which will be heavily dependent on foreign markets, foreign investment flows and imported raw materials.

32. Notwithstanding the further changes in Korea's plans that are likely to result from the re-examination of its industrial strategy, it is apparent that the re-structuring and expansion of Korea's industrial sector will require a heavy outlay of capital. The Government has embarked on a major effort to mobilize the funds required by increasing domestic savings. A National Investment Fund (NIF) was established in December 1973; it is expected to finance a sizable proportion of the investment needs of Korea's major industries by the early 1980's. The Minister of Finance is in charge of the Fund but in effect delegates its management and operation to the Governor of the Bank of Korea. The resources of the Fund will be mobilized mainly by issuance of NIF-Bonds (which are purchased by banks, savings institutions and certain pension and trust funds) and the remainder by direct subscription by the Government. The funds will be on-lent through the banking system for investments in fixed assets (about two-thirds) and for working capital needs (one-third) of major industries.

33. The timely provision of long-term finance for the key industries will depend to a large extent on the efficient operation of the NIF and the tapping of other sources of funds such as Korea's three major development finance companies - KDFC, KDB, and MIB. These three institutions were responsible for 64 percent of total medium- and long-term loans in Korea in 1973. The proposed loan would be the fifth to KDFC. A first loan was made to KDB (which is the largest financial intermediary in Korea) in March 1975, and a loan for the MIB is also being considered in order to support the Government's efforts to encourage the location of relatively small industrial units in the rural areas and so increase off-farm employment opportunities. The magnitude of the demand for term finance in Korea is such that these three institutions, even if their operations increase significantly, will continue to act in a complementary rather than a competitive manner.

#### PART IV - THE PROJECT

34. A report entitled "Appraisal of Korea Development Finance Corporation" (No. 739-KO, dated June 25, 1975) is being distributed separately. A Loan and Project Summary is attached as Annex III. Negotiations were held in Washington on May 28 and 29, 1975 with a Korean delegation led by Mr. C. H. Kim, President of KDFC.

##### The Company

35. KDFC, a privately owned company, was established in 1967 with the assistance of the Bank Group (including an equity participation from IFC), and the Federation of Korean Industries (FKI). KDFC has to date received four Bank loans totalling \$95 million, all of which have been fully committed. It also obtained its first loan from the Asian Development Bank (ADB) in October 1974 for \$30 million.

36. KDFC's performance remains satisfactory from both the developmental and institutional standpoints. It has continued to improve the already high standard of its internal operations, to maintain the quality of its portfolio, and to exhibit an innovative approach to development banking.

37. Although remaining a relatively small source of finance for Korean industry, KDFC has played an important qualitative role in contributing to the improvement of the resource allocation and mobilization systems in Korea. Its high appraisal standards have ensured that Bank funds and other resources available to KDFC have been allocated to projects that were economically as well as financially viable. (Data on a representative sample of KDFC's projects showed an average economic rate of return of 31 percent and a financial rate of return of 24 percent). KDFC-supported projects have had a major economic impact in generating additional employment and increasing value added and exports with considerable balance of payments benefits. As a matter of policy, KDFC's portfolio is highly concentrated in export-oriented projects; the 180 projects approved to date are expected to export annually about \$358 million equivalent or about 40 percent of their output. KDFC's financing has shifted substantially over time, and its earlier concentration on textiles, which accounted for about 30 percent of total lending up to 1970, has been sharply reduced as KDFC has become more heavily involved in marine transport, deep-sea fishing and light industry. This has also brought a discernible shift away from Seoul in the geographic distribution of its overall financing. KDFC has endeavored to improve the design of projects it finances and has provided its clients with limited but useful managerial and technical assistance. Its clientele is reasonably well diversified. Finally, it has made a valuable contribution to improving the Korean financial system through its initiative in promoting and establishing in 1971 the Korea Investment and Finance Corporation (KIFC), a specialized financial institution designed to develop the organized short-term money market and securities market. KIFC's success led to the establishment since 1972 of nine similar institutions, with a consequent expansion of the money market and improved resource mobilization.

### Management and Organization

38. KDFC's ownership is reasonably broad based and, aside from the IFC which owns 14.1 percent of its share capital, no single shareholder (of which there were 341 on December 31, 1974) owns more than 4 percent. Its Board of Directors comprises 13 members of whom five represent foreign private shareholders and the IFC. The eight Korean directors are leading members of the business and banking community. While the Board lays down policy guidelines and has the ultimate authority for all investment decisions, it has delegated authority to an Executive Committee of four Board members (including the Chairman, the President, and two representatives of the Korean and the foreign shareholders respectively) to approve individual loans and investments up to \$1.5 million.

39. KDFC remains one of the best organized and managed DFCs with which the Bank Group is associated. Mr. C.H. Kim, formerly Governor of the Bank of Korea, continues, as KDFC's President, to give the company strong leadership. The high quality of KDFC's staff is evident through all levels of the organization. Up to 1972, the turnover of staff had been minimal. However, despite KDFC's competitive employment conditions vis-a-vis other financial and banking institutions, staff turnover increased considerably in 1973 and 1974, when 19 professional staff members left KDFC. This high turnover was mainly the result of the demand for KDFC-trained staff by the Korean business community (including some of KDFC's client companies). As a result of this attrition and of its policy of limiting new recruits to a number within its capacity to absorb efficiently and train adequately, KDFC's professional staff increased only marginally from 42 to 44 in the last two years, including 21 new recruits. However, KDFC believes that the turnover of staff will decline in 1975 and has made satisfactory plans for recruiting additional professional staff over the next few years. Following a recent review of its organizational structure, which has remained basically unchanged since its inception, KDFC's management has decided to create shortly a separate unit specifically to undertake project identification and promotion work. The latter functions, which to date had been carried out by KDFC's staff on an ad hoc basis, are expected to loom large in its future work program. Its management is also considering the desirability of establishing, at an appropriate time, one or more regional offices to facilitate business contacts with existing and prospective clients outside the greater Seoul area.

### Operations and Resources

40. Since it began its lending operations in 1968, KDFC has approved financial assistance for the industrial, mining, agro-industrial, fishery and transport sectors amounting to a total of W 52.96 billion. Direct lending accounted for 93.7 percent of the total and the remainder was accounted for by equity investments and convertible debentures. Cumulative loan approvals, as of December 31, 1974, totalled W 49.6 billion for 163 projects undertaken by 111 companies. Foreign currency loans (145) amounting to \$109.6 million accounted for 88.1 percent of KDFC's total lending and for

82.5% of its total financing. While KDFC's approvals of Won loans increased marginally to W 1.8 billion in 1974, compared with W 1.7 billion in 1973, approvals of foreign currency loans declined by 16 percent to \$26.8 million (\$31.9 million in 1973). This decline was attributable partly to the reduced level of industrial investment in the second half of 1974 but primarily due to the fact that KDFC experienced an unexpected delay in securing its first ADB loan (which eventually was made in October 1974).

41. With respect to equity investments and convertible debentures, cumulative approvals for these operations amounted to W 3.3 billion for 31 companies. KDFC's equity investment activity expanded considerably during 1974, when it approved W 1,056 million for 12 companies.

42. KDFC's Statement of Operating Policies continues to provide appropriate guidelines for its operations. In view of its proven ability to make sound investment decisions and of the growing size of industrial projects in Korea, it has been agreed that KDFC's normal exposure limit in any single enterprise be revised from 15 percent to 20 percent of the aggregate of paid-in capital, free resources and the Government subordinated loan. This would raise the limit to about \$3.3 million equivalent. To assist projects requiring financing in excess of this amount, KDFC intends to intensify its efforts to arrange joint-financing with other foreign and domestic institutions, including the KDB.

43. As indicated earlier, the standard of KDFC's appraisal work continues to be high. Several DFCs in other countries, to whom KDFC has made available its appraisal reports, have benefitted from KDFC's appraisal techniques. KDFC's evaluation of the technical, marketing and financial aspects of projects has always been thorough. In recent years, the Bank and KDFC have engaged in a dialogue aimed primarily at improving the economic evaluation of its projects and this is now satisfactory. KDFC, together with some other DFCs, is cooperating with the Bank in a pilot scheme to develop a data bank to monitor the performance and benefits of DFC-financed projects.

44. KDFC's supervisory work, which had suffered somewhat in the past due to the lack of adequate technical personnel, is now fully satisfactory. Furthermore, its Operations Department has revised the reporting requirements of its clients and has devised a system for monitoring the actual financial and economic benefits of projects.

45. Until 1974, KDFC relied almost exclusively on the Bank for financing its foreign currency commitments, and had received four Bank loans totalling \$95 million. Additional foreign resources consisted only of a "tied" \$1 million loan from Caterpillar (Far East) Ltd., and a loan from USAID of \$5 million which was subsequently reduced to \$3 million. This heavy reliance on Bank funds was attributable mainly to the fact that the Government, in its "aid management" policy, did not permit KDFC to approach other lending institutions, such as ADB, until 1973. In October 1974, KDFC received its first loan from ADB for \$30 million. In late 1973, KDFC resumed its

soundings of foreign banks (which are also its shareholders), but found that medium- and long-term funds were unavailable at an acceptable interest rate. KDFC has since approached IFC with a request that it act as the manager of a syndicate to put together a loan with the participation of a number of foreign banks. KDFC intends to continue its efforts to raise a foreign commercial loan.

46. By paying part of their dividends in the form of stocks and with the 1973 share issue, KDFC's total won resources have increased from W 3.4 billion at inception to W 8.1 billion as of December 31, 1974 (including the Government loan of W 2.0 billion). Its liquid won resources have always been at least W 1.2 billion. KDFC has so far raised no private won resources through borrowings. One reason was the limited demand for KDFC's domestic currency financing owing to the availability of won funds from commercial banks. Furthermore, the prevailing interest rate structure makes it impossible for KDFC to raise won resources on terms that would enable it to relend except at a substantial loss. KDFC is presently charging 15.5 percent (the same as the standard banking rate) on its domestic currency loans, whereas it would have to pay a rate of between 19 and 21 percent to sell domestic bonds with maturities of up to three years. In view of its present won resource position and a new share capital increase (W 1,370 million) planned for 1976, there is no immediate need for KDFC to mobilize additional won funds. However, KDFC is considering the possibility of going to the domestic market in the future, perhaps in 1977, by issuing bonds for a moderate amount, even if the resulting spread is negative, for the purpose of establishing its name in the market and preparing itself for future resource mobilization efforts.

47. In addition to its role in the establishment of KIFC, KDFC has contributed to resource mobilization indirectly by persuading its clients to increase their equity base; of the 163 existing borrowing companies, 47 have increased their share capital, many by substantial amounts. As far as foreign currency resources are concerned, KDFC has arranged joint-financing for ten projects to which foreign banks and investors (including IFC) have contributed an aggregate amount of \$22.6 million.

#### Financial Results

48. KDFC's overall financial position remains sound and its earnings performance continues to be satisfactory. Net income after taxes increased by 23.4 percent in 1974 to W 911.7 million, compared to W 378.7 million in the previous year; as of December 31, 1974 KDFC's net worth was W 6.1 billion, or 10.7% more than at the end of 1973. KDFC has paid an annual dividend of 20 percent (10 percent in cash, 10 percent in stocks) since 1959 except in 1973 when it distributed a 15 percent cash dividend.

49. As a result of the won devaluation of December 1974, KDFC's long-term debt/equity ratio increased sharply from 4.0:1 to 4.8:1. KDFC promptly requested an increase in the contractual limit of 4.5:1 then in force. In view of the strength of KDFC's management and staff, the

soundness of its portfolio, and its good financial and operational performance an increase of the limit to 6.0:1 is justified under the existing definition where the part of the Government subordinated loan of W 2 billion falling due after the last IBRD loan maturity is treated as equity and the other part as debt. However, the definition of "equity" and "debt" is being modified so as to treat the totality of the outstanding Government loan as debt and exclude it from the equity base. A 6.0:1 ratio under the existing definition is equivalent to about 7.0:1 under the revised definition. The Loan Agreement (Section 4.06) therefore, provides for a debt/equity ratio of 7.0:1.

#### Economic Impact of KDFC's Operations

50. As of December 31, 1974, KDFC had approved loans for 180 projects. The additional direct employment generated by these projects is about 16,000 at an investment cost of about W 6 million (\$12,400) per job, which suggests that KDFC's projects on the whole are not unduly capital intensive. The incremental annual sales attributable to these projects are estimated to amount to W 319 billion (\$658 million) with a value added component of W 89.3 billion (\$184 million). Of this volume of output, an estimated amount of \$358 million is exported annually. Taking into account average annual import requirements of about \$129 million, the net positive balance of payments effect of these projects is estimated to be about \$229 million annually.

51. An ex ante calculation of the economic rates of return (ERR) for a sample of 22 projects appraised by KDFC since June 1973 showed a weighted average ERR of 31.0 percent and a weighted financial rate of return of 24.2 percent. A joint study undertaken earlier in 1972 by KDFC and a Bank mission, based on ex post data on a representative sample of 10 KDFC projects already in commercial operation, also showed ERRs in excess of 30 percent for a large majority of these projects. These returns indicate that Bank funds, through KDFC, have generally been allocated to economically efficient projects.

#### Future Operations and Resource Requirements

52. KDFC estimates that, for the period up to December 31, 1977, it will require about \$103 million to meet its foreign exchange needs. The proposed Bank loan would thus cover about half of KDFC's foreign exchange requirements for the period. A second loan from the ADB is expected to meet a substantial proportion of the balance, and KDFC intends to seek in 1976 a foreign commercial loan, even at a floating rate, for an amount of \$10-15 million. It is envisaged that IFC would act as a syndicate manager and that most of the participants would be foreign banks who are presently KDFC shareholders. Even though such a loan would reduce KDFC's dependence on the Bank and ADB, the scope for foreign commercial borrowings by KDFC is likely to remain small. Consequently, KDFC will have to continue in the foreseeable future to rely primarily on official sources of foreign exchange to sustain the volume of operations it has projected. Its financial position is expected to remain satisfactory during the projected period.



53. Although the rate of inflation has been high, KDFC's relending rate on foreign exchange loans of 10.5-11.0 percent does not appear unduly low considering that sub-borrowers bear the exchange risk. In any event, the level of the interest rates charged by KDFC has to be considered in the context of the general interest rate structure prevailing in the country, which has been the subject of discussion with the Korean authorities in recent months. Although the interest rates on deposits have been increased recently, the Korean authorities consider it unwise to make further upward adjustments in the level of other interest rates at this stage largely because they are apprehensive that such a move would depress the industrial sector which has just begun to recover from the adverse impact of the oil shock and other recent international economic developments. Further, the Government has pointed out that interest rates applied by banking and financing institutions have been lowered in a number of countries in the region as a means of stimulating their economies. Nonetheless, we have indicated to the Korean authorities that we wish to keep interest rate levels under review, and they have agreed to further discussions on this matter from time to time.

54. In view of the high quality of KDFC's appraisal work and the proven ability of its Management to make sound investment decisions, an increase in the free limit from \$0.75 million (under the latest Bank loan, No. 905-KO) to \$2.0 million is recommended (Section 2.02 (b) of the Loan Agreement). There would be no aggregate free limit under the proposed loan. With the proposed free limit, it is estimated that roughly one-quarter of the number of sub-projects under this loan (accounting for about one-half of the loan amount) would require prior approval by the Bank.

55. Besides financing direct imports of machinery and equipment, part of the proceeds of the proposed loan would be utilized to finance an agreed percentage representing the foreign exchange component of domestically produced capital goods and of civil works, a practice followed in the case of Bank lending to several other DFCs. The percentages agreed upon are based on available data which indicate that the average foreign exchange component is about 60 percent for machinery and equipment (including transport equipment) produced in Korea, and 35 percent for local civil construction expenditures (Section 2.02(a) of the Loan Agreement).

56. With regard to broadening its developmental impact in support of general Government policies and programs, KDFC has formulated a development strategy for the next two years, 1976-77, which includes, inter alia, (a) a proposal to establish a leasing company whose object will be to lease industrial machinery to smaller firms which cannot afford outright purchases, thus providing an important financial service to small-scale enterprises; (b) the promotion and establishment, jointly with the Korea Institute of Science and Technology (KIST), of the Korea Technology Advancement Corporation (K-TAC), with the objective of advancing and exploiting commercially viable industrial inventions and discoveries; (c) a study of the machinery industry, to develop suitable projects for investment; (d) studies on agri-business activities, with a view to expanding KDFC's financial assistance to this

sector; and (e) a scheme of linkage with selected regional commercial banks for assistance to smaller industries in backward areas. To carry out the functions noted above, and more generally its expanding promotional activities, KDFC has decided to create a separate unit specifically to undertake project promotion and identification.

#### Justification

57. Korea's ability to make the adjustments necessitated by the deterioration in its terms of trade will be a crucial determinant of the success of its efforts to sustain, albeit at a slower pace, the growth momentum of the past decade. Industrial growth will remain one of the most important elements in the economy. The Government's overall economic and industrial policies (which are outlined in Parts I and III above) and, in particular, the increased emphasis on the development of the capital and intermediate goods industries, are appropriate for the situation in which Korea is placed at present. KDFC, whose performance to date has been very satisfactory from both the developmental and institutional points of view, is especially suitable for providing finance and guidance in the adjustment process. More than merely an efficient intermediary to channel Bank funds to economically and financially viable industrial projects, KDFC has made, and will continue to make important contributions of its own toward improving both the resource allocation and resource mobilization systems in Korea. These contributions include notably KDFC's initiative in establishing KIFC, its role in promoting and assisting projects in the deep-sea fishing and marine transport sectors, and its present endeavor to launch a leasing company and to provide support in other ways for small- and medium-scale industries. The near-term strategy it intends to implement should further broaden its developmental outlook and enhance its contribution to the Korean economy.

58. For the future, KDFC's continued growth is not expected to be constrained by a lack of demand for the financing and other services it offers. Besides the main objective of providing resources for the further expansion of the vitally important industrial sector, the proposed loan would help to relieve pressure on Korea's balance of payments. In addition, it would continue to foster the mutually beneficial relationship between KDFC and the Bank Group. As a result of that relationship, the Bank Group has been able, after having helped establish a strong and efficient institution, to continue to exert its influence in encouraging KDFC to sustain and improve its operational standards, to be innovative in its financing approach, to put emphasis on the economic merits of projects seeking its assistance, and more generally to commit itself to broader developmental objectives. Over the period of commitment of this loan, KDFC's efforts along these lines are expected to be intensified with the implementation of its development program for 1976-77.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

59. The draft Agreement between the Bank and the Korea Development Finance Corporation, the draft Guarantee Agreement between the Republic of Korea and the Bank, the report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank and the text of a resolution approving the proposed loan are being distributed to the Executive Directors separately. Features of the Loan Agreement of special interest are referred to in paragraphs 49, 54 and 55.

60. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

61. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara  
President

Attachments  
July 1, 1975

## ANNEX 1

Page 1 of 3 pages

## COUNTRY DATA - KOREA

AREA  
98,477 km<sup>2</sup>POPULATION  
33.5 million (mid-1974)DENSITY  
71.9 Per km<sup>2</sup> of arable land

## SOCIAL INDICATORS

	Korea		Reference Countries		
	1960	1970	Thailand 1970	Turkey 1970	Japan 1970
<b>GDP PER CAPITA US\$ (ATLAS BASIS) /1</b>	440 /a	310 /b	220 /b	370 /b	2,320 /b
<b>DEMOGRAPHIC</b>					
Crude birth rate (per thousand)	40 /c	28	43 /d	38 /d,e	19.2 /f
Crude death rate (per thousand)	11 /c	8	10 /d	13 /d,e	6.6 /f
Infant mortality rate (per thousand live births)	..	..	80-90	145 /g	12.4 /f
Life expectancy at birth (years)	56	65	59	55 /h	72
Gross reproduction rate /2	1.1 /n	2.5 /d	3.2 /d	2.6 /e,h	1.0 /d
Population growth rate	1.0 /a,i	2.2 /i	3.1 /i	2.5 /i	1.1 /i
Population growth rate - urban	7 /a	6 /i	5 /k	4.5 /i	3 /e
Age structure (percent)					
0-14	44	40 /b	45	42	24.0 /f
15-64	53	57 /b	52	54	68.8 /f
65 and over	3	3 /b	3	4	7.2 /f
Age dependency ratio /4	0.9	0.8 /b	0.9	0.8	0.4 /f
Economic dependency ratio /4	1.6	1.4	1.1	1.1	0.6
Urban population as percent of total	28 /i	41 /i	13 /k	39 /b,i	72 /e
Family planning: No. of acceptors cumulative (thous.)	..	..	550	484 /o,p	..
No. of users (% of married women)	..	..	10	8.2 /k	..
<b>EMPLOYMENT</b>					
Total labor force (thousands)	7,500	12,100 /u	16,700	14,500 /r	53,200
Percentage employed in agriculture	66	46 /v	79	67	19.1
Percentage unemployed	9	4.1 /u	..	4	1.4
<b>INCOME DISTRIBUTION</b>					
Percent of national income received by highest 5%	17 /s,a,i	15 /f,t	..	32 /g,t,v	..
Percent of national income received by highest 20%	42 /s,a,i	37 /f,t	..	60 /g,t,v	..
Percent of national income received by lowest 20%	7 /s,a,i	10 /f,t	..	3 /g,t,v	..
Percent of national income received by lowest 40%	20 /s,a,i	24 /f,t	..	10 /g,t,v	..
<b>DISTRIBUTION OF LAND OWNERSHIP</b>					
% owned by top 10% of owners	27	28	..	53	..
% owned by smallest 10% of owners	3	2	..	0.9	..
<b>HEALTH AND NUTRITION</b>					
Population per physician	3,000 /c,w	1,870 /b	7,250 /z	3,120 /f	860 /f
Population per nursing person	..	1,760 /w	2,950 /z	1,830 /f	340 /f
Population per hospital bed	2,600 /c	1,950 /b	820 /z	1,800 /f	80 /f
Per capita calorie supply as % of requirements /5	85	103	105	110	106
Per capita protein supply, total (grams per day) /6	53	65	52	78	76
Of which, animal and pulse	13 /c	19 /y,z	17 /aa	22 /aa	45
Death rate 1-4 years /1	..	..	..	15 /h	1.0 /f
<b>EDUCATION</b>					
Adjusted /8 primary school enrollment ratio	96	90 /b	83 /f	111	100
Adjusted /8 secondary school enrollment ratio	27	41	13 /g	28	90
Years of schooling provided, first and second level	12	12	12	11	12
Vocational enrollment as % of sec. school enrollment	14	15 /f	12 /y,ab	14	20
Adult literacy rate %	..	92 /b,ac,ak	..	55 /ad	99 /e,v
<b>HOUSING</b>					
Average No. of persons per room (urban)	2.8 /ae	2.7	..	1.9	1.0 /e
Percent of occupied units without piped water	88 /af	80 /af	..	64 /ag	5 /g,ag
Access to electricity (as % of total population)	28	80 /b	17	41 /ah	..
Percent of rural population connected to electricity	12	40 /b	13	18 /ah	..
<b>CONSUMPTION</b>					
Radio receivers per 1000 population	32	128 /f	83 /b	107 /b	658 /b
Passenger cars per 1000 population	0.4	2 /b	7 /f	4	117 /b
Electric power consumption (kwh p.c.)	71	392 /b	164 /b	304 /b	3,909 /b
Newspaper consumption p.c. kg per year	1.8	3.7 /b	1.5 /b	2.2 /b	19.6 /b

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

/1 The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.

/2 Average number of daughters per woman of reproductive age.

/3 Population growth rates are for the decades ending in 1960 and 1970.

/4 Ratio of population under 15 and 65 and over to population of ages 15-64 for age dependency ratio and to labor force of ages 15-64 for economic dependency ratio.

/5 FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weights, and distribution by age and sex of national populations. Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 55 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/7 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/8 Percentage enrolled of corresponding population of school age as defined for each country.

/a Computed by applying to the 1970 figure the growth rate of GNP per capita in real terms from 1960 to 1970; /b 1977; 1962; /c 1965-70 UN estimate; /d Derived from Sample Survey estimates (240,000 persons), excluding 17 eastern provinces; /e 1971; /f 1968; /g 1965-67; /h 1960-72; /i Seoul city and municipalities of 5,000 or more inhabitants; /j Municipalities; /k Administrative centers of provinces and districts ("Vilayet" and "Kaza" centers); /l Cities ("Shi") having 30,000 or more inhabitants; /m 1950-55; /n 1964-June 1974; /o 86 percent being IUDs; /p Employed labor force; /q 15 years and over; /r Wage and salary income of households; /s Households; /t 1974; /u Disposable income; /v Number on the register not all working in the country; /w Including assistant nurses and midwives; /x 1969; /y Estimate; /z 1964-66; /aa Data on vocational education refers to public schools and includes technical education at the post-secondary level; /ac Definition unknown; /ad Persons six years old and over who tell the census takers that they can read and write; /ae Data refer to households; /af Water piped inside; /ag Inside or outside; /ah Percentage of dwellings with electric lighting; /ai 1964; /aj 1955-60; /ak Ten years and over.

\* Japan has been selected as an objective country due to the similarity of the present Korean economic structure to that of Japan in the mid-fifties (with the same principle resource base, i.e., efficient, industrious, cheap labor and heavy reliance on imported raw materials). Moreover, agriculture, transport, and other sectors of the economy have similar characteristics. Korea also has, in its Long-Term Plan (1972-81), a pattern of industrial development which is not very different from the one Japan pursued with great success in the sixties.

ECONOMIC DEVELOPMENT DATA  
(Amounts in millions of U.S. dollars)

	Actual		Projected		1972-1974		1975-1980		1974-1975		1980-1985		1974-1975		1980-1985			
	1972	1973	1974	1975	1976	1980	1974	1975	1980	1985	1974	1975	1980	1985	1974	1975	1980	
NATIONAL ACCOUNTS																		
	1973 Prices and Exchange Rate										Average Annual Growth Rates				As Percent of GDY			
Gross Domestic Product	10,749	12,568	13,590	14,244	15,344	21,018	12.4	4.8	8.1	8.7	105.6	105.4	105.5					
Gains from Terms of Trade (+)	-38	-	-721	-729	-741	-1,093	-	-	-	-	-5.6	-5.4	-5.5					
Gross Domestic Income	10,711	12,568	12,869	13,515	14,603	19,925	9.6	5.0	8.1	8.6	100.0	100.0	100.0					
Import (incl. NFS)	3,464	4,389	4,533	4,658	4,922	6,329	14.4	3.0	6.0	9.0	35.2	34.5	31.8					
Exports " (import capacity)	2,349	3,286	2,882	3,002	3,382	5,332	10.8	4.2	12.0	12.0	22.4	22.2	26.8					
Resource Gap	-1,115	-1,103	-1,651	-1,656	-1,540	-997	21.8	0.3	-9.3	-	-12.8	-12.2	-5.0					
Consumption Expenditures	9,089	9,646	9,887	10,769	11,432	14,945	4.3	8.9	6.8	7.3	76.8	79.7	75.0					
Investment " (incl. stocks)	2,352	3,246	4,000	3,799	3,937	5,314	30.0	5.0	7.0	12.2	31.1	28.1	26.7					
Domestic Savings	1,821	3,103	2,866	2,389	2,927	4,997	25.5	-16.7	15.9	12.5	22.3	17.8	25.1					
National Savings	1,798	2,920	2,673	2,188	2,673	4,603	21.8	-18.1	16.0	13.0	20.8	16.2	23.1					
MERCHANDISE TRADE																		
	Annual Data at Current Prices										As Percent of Total							
Imports																		
Capital goods	791	1,157	1,868	2,075	1,816	2,946	53.0	11.1	7.2	16.1	27	28	19					
Intermediate goods (excl. fuels)	1,100	2,109	2,990	3,120	4,191	8,048	64.8	4.3	20.5	18.8	45	41	51					
Fuels and related materials	219	313	1,120	1,335	1,485	2,700	150.0	19.0	15.1	15.5	16	18	17					
of which: Petroleum	218	296	1,120	1,320	1,474	2,680	150.0	18.0	15.2	15.5	16	18	17					
Consumption goods	422	661	916	1,000	1,467	2,154	49.4	9.2	16.5	14.2	13	13	13					
Total Merch. Imports (cif)	2,522	4,240	6,894	7,530	8,961	15,848	68.5	9.2	16.0	17.1	100	100	100					
Exports																		
Primary products (excl. fuels)	269	327	454	501	637	1,341	30.0	10.4	21.8	19.8	10	10	10					
Fuels and related materials	18	35	108	115	125	175	160.0	6.0	8.7	7.0	2	2	1					
of which: Petroleum	18	35	108	115	125	175	160.0	6.0	8.7	7.0	2	2	1					
Manufactured goods	1,389	2,909	3,975	4,384	5,613	11,891	68.0	10.3	22.3	24.3	88	88	89					
Total Merch. Exports (fob)	1,676	3,271	4,537	5,000	6,375	13,407	64.0	10.2	22.0	19.8	100	100	100					
Tourism and Border Trade	-	-	-	-	-	-	-	-	-	-	-	-	-					
Merchandise Trade Indices	Average 1973 = 100																	
Export Price Index	79.0	100.0	125.9	134.3	148.5	206.0	26.0	6.8	8.9	7.3								
Import Price Index	74.9	100.0	156.0	166.8	181.8	247.3	44.5	6.9	8.2	7.2								
Terms of Trade Index	105.5	100.0	80.7	80.5	81.7	83.3	-13.0	-0.2	0.7	0.1								
Exports Volume Index	63.8	100.0	103.8	108.0	125.2	182.0	27.8	3.8	11.0	10.7								
VALUE ADDED BY SECTOR																		
	Annual Data at 1973					Prices and Exchange Rates					Average Annual Growth Rates				As Percent of Total			
Agriculture	3,042	3,210	3,432	3,544	3,686	4,250	6.2	3.3	3.7	2.0	28	28	23					
Industry and Mining	2,224	2,897	3,351	3,554	4,001	6,186	22.5	6.1	11.7	13.0	27	28	33					
Service	4,571	5,307	5,555	5,783	6,057	8,072	10.1	4.1	6.9	7.6	45	44	44					
Total	9,837	11,414	12,338	12,881	13,744	18,508	12.0	4.4	7.6	8.5	100.0	100.0	100.0					
PUBLIC FINANCE																		
(Central Government)											As Percent of GDP							
Current Receipts	1,701	1,530	1,814	1,839	2,103	3,321	3.3	1.1	12.5	10.0	13	13	16					
Current Expenditures	1,359	1,193	1,379	1,509	1,563	2,153	0.7	9.4	7.4	9.0	10	10	10					
Budgetary Savings	342	337	435	330	540	1,168	12.8	-24.0	28.5	12.0	3	3	5					
Other Public Sector	-	-	-	-	-	-	-	-	-	-	-	-	-					
Public Sector Investment	859	445	580	621	714	1,563	-17.5	7.1	20.7	10.0	4	4	7					
CURRENT EXPENDITURE DETAILS																		
(As % Total Current Expend.)	Actual					Prelim. Est. Proj.					US \$ million							
	1972	1973	1974	1975	1980						At 1973 P and ER				Average %			
Education	3.2	3.4	3.2	3.4	3.0	PUBLIC SECTOR INVESTMENT PROGRAM					1974	1975	1974-75					
Other Social Services	1.9	2.0	1.9	1.9	1.2	Social Sectors					52	58	5.2					
Agriculture	1.7	1.5	2.1	2.2	2.0	Agriculture					167	223	18.5					
Other Economic Services	2.2	2.0	2.4	3.1	5.0	Industry and Mining					188	207	18.8					
Administration and Defense	76.0	75.8	76.2	65.6	65.0	Power					94	105	9.5					
Other	15.0	15.3	14.2	13.2	13.0	Transport and communications					286	387	32.0					
Total Current Expenditures	100.0	100.0	100.0	100.0	100.0	Other					152	186	16.0					
						Total Expenditures					939	1,166	100.0					
SELECTED INDICATORS																		
	1960-1965		1965-1970		1970-1975		FINANCING											
Average ICOR	2.7		2.3		3.9		Public Sector Savings					123	19	6.8				
Import Elasticity	0.8		2.6		1.2		Domestic Borrowing					659	893	73.7				
Marginal Domestic Savings Rate	30.0		34.8		12.4		Foreign Borrowing					157	254	19.5				
Marginal National Savings Rate	28.0		26.7		6.0		Total Financing					939	1,166	100.0				
LABOR FORCE AND OUTPUT PER WORKER																		
	Total Employment					Value Added Per Worker (1973 - 1974)					Prices & Exc. Rates							
	In Millions		% of Total		1972 - 74		In U.S. Dollars		Percent of Average		1972 - 74							
	1972	1974	1972	1974	Growth Rate		1972	1974	1972	1974	Growth Rate							
Agriculture	5.3	6.0	50.0	52.2	6.3		574	572	62	53	-0.3							
Industry	1.8	2.2	17.0	19.1	10.5		1,236	1,523	133	142	11.0							
Service	3.5	3.3	33.0	28.7	-3.0		1,306	1,683	144	157	13.5							
Total	10.6	11.5	100.0	100.0	4.2		928	1,073	100	100	7.5							

.. not applicable - nil or negligible  
 .. not available -- less than half the smallest unit shown

1/ Includes processed primary products.  
 2/ Based on merchandise and non-factor services.  
 3/ Budget.  
 4/ Economic functional classification of Central Gov't. Expenditure.

5/ Development budget.  
 6/ Residual (Economic Report)  
 7/ Bunkering (manufactures)

BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT  
(amounts in millions of U.S. dollars at current prices)

	Actual				Projected							Avg. Annual Growth Rate 1975-1985
	1971	1972	1973	1974 <sup>1/</sup>	1975	1976	1977	1978	1979	1980	1985	
<b>SUMMARY BALANCE OF PAYMENTS</b>												
Exports (incl. NFS)	1,478	2,078	3,961	5,179	5,744	7,365	8,782	10,500	12,496	14,848	35,213	19.9
Imports (incl. NFS)	2,489	2,576	4,367	7,068	7,815	9,164	10,334	11,821	13,711	15,801	33,949	15.8
Resource Balance (X-M)	-1,011	-501	-406	-1,889	-2,071	-1,799	-1,552	-1,321	-1,215	-953	1,264	-
Interest (net)	-91	-106	-123	-141	-211	-304	-408	-466	-721	-876	-1,663	22.7
Other Factor Payments	29	19	26	-42	-38	88	89	115	120	120	245	-
Workers' Remittance	54	47	4	-	-	-	-	-	-	-	-	-
Current Transfers (net)	171	170	190	233	300	285	300	325	330	360	250	-1.7
Balance on Current Accounts	-848	-371	-309	-1,839	-2,020	-1,730	-1,571	-1,347	-1,486	-1,369	96	-
Private Direct Investment	43	79	143	124	120	130	140	150	170	190	325	10.5
Official Capital Grants	-	-	-	-	-	-	-	-	-	-	-	-
Public M&T Loans												
Disbursements	741	669	775	1,171	2,074	2,528	2,610	2,649	2,855	2,950	4,025	6.8
-Repayments	223	262	382	407	499	638	839	973	1,168	1,381	2,839	20.3
Net Disbursements	518	407	393	764	1,575	1,890	1,771	1,676	1,687	1,569	1,186	-3.2
Other M&T Loans												
Disbursements	33	49	68	158	...	...	...	...	...	...	...	...
-Repayments	10	10	15	23	...	...	...	...	...	...	...	...
Net Disbursements	23	39	53	135	...	...	...	...	...	...	...	...
Capital Transactions n.e.i.	180	67	220	78								
Change in Net Reserves	-83	220	492	-738								
<b>GRANT AND LOAN COMMITMENTS</b>												
Official Grants & Grant-like	-	-	-	-								
Public M&T Loans <sup>1/</sup>												
IBRD	85	73	150	85								
IDA	7	26	20	-								
ADB	81	68	16	89								
Other Multilateral	-	-	-	-								
Governments	309	504	378	388								
Suppliers	188	83	211	370								
Financial Institutions	11	83	213	552								
Bonds	-	-	-	19								
Public Loans n.e.i.	115	46	84	328								
Total Public M&T Loans <sup>2/</sup>	796	883	1,072	1,831								
<b>EXTERNAL DEBT</b>												
	Actual Debt Outstanding on Dec. 31, 1974 <sup>1/2/</sup>											
	Disbursed Only											
World Bank	197.0											
IDA	58.5											
ADB	70.1											
Governments	1,590.9											
Suppliers	937.4											
Financial Institutions	325.0											
Bonds	19.0											
Public Debts n.e.i.	617.2											
Total Public M&T Debt <sup>2/</sup>	3,815.1											
Other M&T Debts <sup>2/</sup>	396.0											
Short-term Debt (disb. only) <sup>2/</sup>	1,015.7											

## DEBT AND DEBT SERVICE

	1970	1971	1972	1973	1974 <sup>1/2/</sup>
Public Debt Out. & Disbursed	1,742	2,259	2,666	3,051	3,815
Interest on Public Debt	67	83	114	147	193
Repayments on Public Debt	212	223	262	389	407
Total Public Debt Service	279	306	376	536	600
Other Debt Service (net)	10	22	23	32	55
Total Debt Service (net)	289	328	399	568	655
Burden on Export Earnings (%)					
Public Debt Service	22.8	20.7	18.1	13.5	11.6
Total Debt Service	23.7	22.2	19.2	14.3	12.6
TDS+Direct Invest. Inc.	26.8	24.2	20.2	15.4	14.2
Average Terms of Public Debt					
Int. as % Prior Year DO&D	4.5	4.8	5.0	5.5	6.3
Amort. as % Prior Year DO&D	14.2	12.8	11.6	11.6	13.4
IBRD Debt Out. & Disbursed	9.6	10.2	94.7	139.8	197.0
" as % Public Debt O&D	0.5	1.8	3.6	4.6	5.2
" as % Public Debt Service	0.3	0.7	1.7	2.2	2.3
IDA Debt Out. & Disbursed	25.6	26.7	39.9	47.1	58.5
" as % Public Debt O&D	1.5	1.2	1.5	1.5	1.5
" as % Public Debt Service	0.1	0.1	0.1	0.1	0.1

.. not applicable  
... not available separately  
but included in total

e staff estimate  
- nil or negligible  
-- less than half the  
smallest unit shown

p provisional

<sup>1/</sup> IBRD (loans of maturity one year and above)  
<sup>2/</sup> EPB (excludes private, non-guaranteed loans)  
<sup>3/</sup> EPB (loans with a maturity of less than one year)

KOREA

THE STATUS OF BANK GROUP OPERATIONS IN THE REPUBLIC OF KOREA

A. Statement of Bank Loans and IDA Credits (as at May 31, 1975)

Loan or Credit Number	Year	Borrower	Purpose	US\$ Million		
				Amount (less cancellations)		
				Bank	IDA	Undisbursed
Five loans and credits fully disbursed				24.7	39.7	
600	1969	ADC	Irrigation	45.0		7.1
151	1969	Republic of Korea	Education		14.8	2.7
669	1970	Republic of Korea	Railways	40.0		2.8
234	1971	Republic of Korea	Livestock		7.0	.4
735	1971	KDFC	Dev. Fin. Co.	30.0		.9
769	1971	Republic of Korea	Highways	54.5		1.4
283	1972	Republic of Korea	Irrigation		15.0	6.0
795	1972	ADC	Irrigation	33.0		32.2
335	1972	Republic of Korea	Agricultural Credit		10.5	3.1
863	1972	Republic of Korea	Railways	40.0		11.4
905	1973	KDFC	Dev. Fin. Co.	40.0		8.8
906 & 394	1973	Republic of Korea	Education II	23.0	20.0	42.8
917	1973	Republic of Korea	Ports	80.0		77.0
942	1973	Republic of Korea	Seeds Production	7.0		6.7
953	1974	Republic of Korea	Tourism	25.0		23.8
956	1974	Republic of Korea	Highways II	47.0		30.0
994	1974	AFDC	Agriculture	13.0		13.0
1070/a	1975	Republic of Korea	Secondary Cities	15.0		15.0
1094	1975	Republic of Korea	Program Loan	100.0		91.8
1095/a	1975	KDB	Dev. Finance Co.	60.0		60.0
1096/a	1975	Republic of Korea	Third Education	22.5		22.5
1101/a	1975	Republic of Korea	Fifth Railway	100.0		100.0
Total				799.7	107.0	559.4
of which has been repaid				14.8	.4	
Total now outstanding				784.9	106.6	
Amount sold			2.0			
of which has been repaid			0.8	1.2		
Total now held by Bank and						
IDA (prior to exchange adjustment)				783.7	106.6	
Total undisbursed				527.2	32.2	559.4

/a Not yet effective

B. Statement of IFC Investments (as at May 31, 1975)

<u>Fiscal Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>Amount in US\$ Million</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1968	KDFC	Development financing	-	0.7	0.7
1969	Honam Silk Co.	Textiles	1.4	0.3	1.7
1970	Atlas Paper Co.	Pulp and paper	4.5	0.5	5.0 <sup>1/</sup>
1971	Korea Investment and Finance Corp.	Capital market development	-	0.7	0.7
1974	KDFC	Development Financing	-	0.4	0.4
1974	Korea Investment and Finance Corp.	Capital market development	-	0.3	0.3
1975	Gold Star & Co., Ltd.	Electronic Products	16.0	1.3	17.3
1975	Korea Securities Finance Corp.	Capital market development	5.0	0.6	5.6
1975	Tong Yang Nylon Company Ltd.	Textiles	6.9 ---	2.1 ----	9.0 ----
Total gross commitment			33.8	6.9	40.7
less cancellations, terminations, repayments and sales			<u>9.8</u>	<u>.8</u>	<u>10.6</u>
Total commitments now held by IFC			<u>24.0</u> <sup>2/</sup>	<u>6.1</u>	<u>30.1</u> <sup>2/</sup>
Total undisbursed			<u>14.1</u>	<u>2.1</u>	<u>16.2</u>

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1/ Cancelled at the request of the Company

2/ Includes \$3,000,000 additional participation  
not yet finalized.



PROJECTS IN EXECUTION<sup>1/</sup>

Loan No. 600

Pyongtaek-Kumgang Irrigation Project; US\$45.0 million  
Loan of May 23, 1969; Closing Date: December 31, 1976

The Project includes irrigation for about 35,000 ha, improvement of drainage and roads, consolidation of paddy fields, benching of upland and tidal land reclamation. Construction was delayed by a reorganization of the executing agency and a delay in hiring consultants. The major project components (two sea dikes, the main distribution system and pumping plants) were largely completed by the end of 1974. Contracts for nearly all of the remaining work have been awarded. Cost considerations have led to the exclusion of about 5,000 ha of land from the project. Costs have risen from US\$90 million at appraisal to about US\$130 million largely because of the increased costs of right-of-way, engineering, administration and land consolidation. Preliminary estimates indicate increases in the price of rice will partially offset the effects of higher costs and reduced irrigable area. The economic rate of return is now estimated to be about 10 percent, compared with the appraisal estimate of 14 percent. The implementing agency (ADC) has reviewed ways of economizing on the remaining work which should lead to some marginal cost savings. About 85 percent of the Loan has been disbursed. Construction is progressing satisfactorily and is scheduled for completion by mid-1976.

Credit No. 151

First Education Project; US\$14.8 million Credit  
of June 4, 1969; Closing Date: December 31, 1975

This Project comprises: (a) the expansion and equipping of 27 technical, commercial and agricultural high schools, 5 post-secondary higher schools and 4 university teacher training departments; and (b) 26 man-years of technical assistance and 20 man-years of overseas fellowships to support the development of agricultural and technical education. Project implementation, which was slow at commencement, has improved and the project is now 12 months behind schedule compared with the 15 months delay estimated a year ago. All civil works, furniture procurement, technical assistance and fellowships have been completed; 80 percent of the equipment has been procured and the remainder is expected to be delivered during 1975. The total project cost is estimated to remain about 3 percent below the appraisal

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<sup>1/</sup> These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

estimate. Due to delays in final equipment procurement, a further extension of the Closing Date may become necessary.

Loan No. 669                      Third Railway Project; US\$40.0 million loan and  
Credit No. 183                      US\$15.0 million Credit of May 14, 1970; Closing Date:  
December 31, 1975

The bulk of the Loan and Credit was earmarked for the purchase of freight cars, diesel locomotives, and telecommunications and track maintenance equipment. Progress is generally satisfactory except for delays in the procurement of some microwave equipment which had to be re-tendered.

Credit No. 234                      Integrated Dairy Beef Development Project; US\$7.0 million  
Credit of February 11, 1971; Closing Date: March 31, 1977

The development of about 700 small and medium-sized dairy farms by providing long-term loans and the construction and operation of two dairy products processing plants are the principal components of the Project which also includes the provision of management and technical services. Project execution has been satisfactory. To date, about 591 farmers have participated and farm loans of about US\$4.5 million equivalent have been approved. About 4,900 head of cattle have been purchased and two dairy plants have been constructed and are in operation. The proceeds of the Credit are almost fully committed.

Loan No. 735                      Third Korea Development Finance Corporation Project,  
US\$30 million Loan of May 14, 1971; Closing Date:  
August 31, 1975

The Project is progressing satisfactorily. The Loan is fully committed.

Loan No. 769                      First Highway Project; US\$54.5 million Loan of  
June 29, 1971; Closing Date: November 30, 1975

The construction of approximately 370 km of national highways between Jeonju and Busan was satisfactorily completed in December, 1973, at a final cost about five percent above the appraisal estimate. Feasibility studies and detailed engineering have been completed for 1,400 km and 1,100 km of national highways, respectively. A study of road maintenance and the establishment of a pilot maintenance organization formed the basis of the creation of a country-wide Highway Maintenance Organization which is being carried out under the Second Highway Project.

Loan No. 795                      Yong San Gang Irrigation Project; US\$33.0 million Loan  
Credit No. 283                      and US\$15.0 million Credit of February 2, 1972; Closing  
Date: September 30, 1977

This Project aims at transforming an area with the highest drought frequency in Korea into one with year-round irrigation and crop diversification. Also, there will be increased production of high value crops such as

fruits and winter vegetables. Design work is proceeding satisfactorily and the work on four dams, the main canals and land consolidation has started. Award of the three remaining major contracts anticipated for canals and land consolidation have been delayed until this summer, with construction to start after the rice harvest, i.e. roughly a year later than scheduled at appraisal. The delay was caused mainly by increased costs due largely to the price escalation and design modification. The cost increases will be partially compensated for by benefits attributable to the enlargement of the area to be irrigated by about 1,400 ha.; and ADC plans to reduce costs by constructing only canals, roads and drainage systems for contour furrow irrigation on all lands exceeding 2 percent slope. (Previous watershed management studies indicate that it would be better to bench and terrace the lands about 5 percent, but this is now deemed too costly.) Also the Bank has begun monitoring construction costs on each of the seven major civil works contracts on a monthly basis.

Credit No. 335      Agricultural Credit Project: US\$10.5 million Credit of September 29, 1972; Closing Date: September 1, 1976

The Credit supports a three year lending program to small farmers to develop orchards, sericulture and mushroom production and to encourage the breeding of poultry and swine. It also finances an organizational and accounting study of the National Agricultural Cooperative Federation (NACF) and the strengthening of its training facilities. The Project is progressing satisfactorily and its disbursement is proceeding on schedule.

Loan No. 863      Fourth Railway Project; US\$40.0 million Loan of November 22, 1972; Closing Date: December 31, 1976

The main elements of the Project are: electrification of lines in the Seoul suburban area; purchase of electric railcars and locomotives; the completion of electrification of 350 km of line running from Seoul to the northeastern part of Korea; track and bridge renewal; provision of yard facilities; acquisition of passenger and freight cars; and improvement of facilities for the maintenance and repair of motive power and rolling stock. No major problems have been encountered; about 90 percent of the Loan proceeds have been committed.

Loan No. 905      Fourth KDFC Project; US\$40.0 million Loan of June 13, 1973; Closing Date: December 31, 1977

The Project is progressing satisfactorily.

<u>Loan No. 906</u>	<u>Second Education Project; US\$23.0 million Loan and</u>
<u>Credit No. 394</u>	<u>US\$20.0 million Credit of June 13, 1973; Closing Date:</u>
	<u>December 31, 1977</u>

The Project provides equipment for and extensions to the buildings of: 18 technical and 14 agricultural high schools; ten higher schools/junior colleges for industrial, agricultural, fishery and nursing training; colleges of agriculture, engineering and natural sciences in nine universities and a merchant marine college; and ten junior teacher colleges and 12 colleges of education. It also includes pre-investment studies on health and management education. Implementation is about seven months behind schedule due too delays in the preparation of equipment lists (civil works, which are being financed by the Government, are slightly ahead of schedule). The project is encountering two problems: delays in equipment procurement and lack of counterpart funds to cover cost overruns on civil works (about 75%). However, steps have been taken by the government and the Bank to overcome these problems and therefore implementation should improve within the next six months. The project is expected to be completed on schedule by the end of 1977. Disbursement has been somewhat slower than expected at appraisal due to the delay in the preparation of equipment lists but is expected to improve.

<u>Loan No. 917</u>	<u>Ports Project; US\$80 million Loan of June 27, 1973;</u>
	<u>Closing Date: June 30, 1979</u>

The Project includes the provision of container and bulk cargo facilities and equipment at Busan and coal piers and handling equipment at Busan and Mukho. Some contracts for dredging and pier construction have been awarded. The design-work and preparation of tender documents for the remaining items are proceeding satisfactorily. Revised cost estimates show an increase of about 30 percent over appraisal estimates. A Phase II Port Development Study and consultants' services in connection with the establishment of a "Korean Port Authority" are proceeding satisfactorily.

<u>Loan No. 942</u>	<u>Seeds Project; US\$7.0 million Loan of November 16, 1973;</u>
	<u>Closing Date: December 31, 1978</u>

The Project consists of: (a) the installation of five field crop seed processing and storage facilities; (b) farm machinery for seed production; (c) procurement of seasonal seed inventories through the operation of a revolving fund; (d) seed testing laboratories and equipment; (e) crop research (financed in part by USAID); (f) feasibility studies for irrigation and area development; and (g) technical assistance. The necessary legislative and administrative action for revising the seed law and establishing an "Office of Seed Production and Distribution" has been taken. Project implementation is proceeding satisfactorily. Preliminary estimates suggest that project costs would be somewhat higher than envisaged at appraisal; the estimates are being reviewed.

Loan No. 953

Kyongju Tourism Project; US\$25.0 million Loan of  
January 4, 1974; Closing Date: December 31, 1978

The Project forms part of the first phase of the planned development of the Bomun Lake resort near Kyongju. It provides for a multi-purpose dam; an irrigation system for about 1,200 ha; improvement and expansion of the water supply and sewerage and solid waste disposal systems for the city of Kyongju and the resort area; installation of electrical supply and telecommunication facilities for the resort area; the construction and/or re-alignment of about 57 kms of roads; infrastructure including storm water drainage, environmental sanitation, community facilities, a golf course, a school for training hotel personnel; and a feasibility study for the development of tourism on Cheju Island. Final design for almost all Project components is complete and several contracts have been awarded.

Loan No. 956

Second Highway Project; US\$47.0 million Loan of  
January 25, 1974; Closing Date: December 31, 1977

The Project, which forms part of the Government's 1972-76 road construction and paving program, consists of the construction (chiefly on new alignments) of about 130 kms and paving (largely on existing alignments) of approximately 635 km, of national highways; feasibility studies by consultants of about 1,000 kms of national and provincial roads, followed by detailed engineering where justified; and the procurement of highway maintenance and workshop equipment for the extension of a new highway maintenance program from a pilot province to the remainder of the country. All construction and paving contracts have been awarded.

Loan No. 994

Integrated Agricultural Products Processing Project;  
US\$13.0 million Loan of June 7, 1974; Closing Date:  
June 30, 1979

The Project aims at integrating the on-farm production of commercial crops for export with efficient hygienic processing facilities using land that is presently idle or underutilized. It comprises (i) on-farm development of asparagus, oak mushrooms and mushrooms; (ii) construction of and improvements to facilities to process asparagus, oak mushrooms, mushrooms and fruits; and (iii) technical assistance including training of staff, services of consultants, etc. The Project is progressing satisfactorily.

Loan No. 1970

Secondary Cities Regional Project; US\$15.0 million  
Loan of January 15, 1975; Closing Date: March 31, 1979

The principal aims of the Project are the establishment of an organizational framework for regional investment, planning and development and to improve working and living conditions in the secondary cities of the less developed Gwangju region. The main elements of the Project are: (i) housing sites and services in the cities of Yeosu, Mogpo and Gwangju (370,384 m<sup>2</sup>); (ii) a fishery harbor complex with industrial processing zone (215,385 m<sup>2</sup>) in Yeosu; (iii) a city market in Suncheon City (33,160 m<sup>2</sup>); and (iv) access

roads in Yeosu and Mogpo (6.61 km). It also provides technical assistance to strengthen regional planning and development, to improve the utilization of existing water supply systems in the four cities, to assist the management and operation of the fishery complex and to carry out feasibility studies of project proposals identified under the UNDP-financed Phase II Regional Study. The terminal date for effectiveness of the Loan has been extended to July 15, 1975 to provide additional time for the completion of all the requisite conditions.

Loan No. 1094                      Program Loan; US\$100.0 million Loan of March 31, 1975;  
Closing Date: May 1, 1976

The principal aim of the Loan is to help meet the foreign exchange requirements of the import into the Republic of Korea by the private sector of essential capital and intermediate goods.

Loan No. 1095                      Korea Development Bank Project; US\$60.0 million Loan  
of March 31, 1975; Closing Date: June 30, 1979

The Project provides funds to KDB which will be used to make sub-loans to finance direct imports for industrial sub-projects during the period mid 1975 to mid 1977. The Loan was declared effective on June 17, 1975.

Loan No. 1096                      Third Education Project; US\$22.5 million Loan of  
March 31, 1975; Closing Date: June 30, 1980

The principal aims of the Project are to assist in supplying needed skills and to establish a framework for evaluating performance and improving the educational system. The Project consists of: (a) construction and equipment of a new technical high school; (b) equipment and extension of buildings for three agricultural junior colleges; (c) equipment and enlargement of buildings for a fisheries college, three fisheries high schools, and equipment for one merchant marine junior college; (d) construction and equipment of seven new vocational training institutes; and (e) financing of engineering and technical services required for the preparation of future education projects. The Loan was declared effective on June 6, 1975.

Loan No. 1101                      Fifth Railway Project; US\$100.0 million Loan of  
April 10, 1975; Closing Date: December 31, 1978

The Project will help the Korean National Railroad (KNR) continue as a major carrier of freight and passengers by helping in: the upgrading, modernization and expansion of track, rolling stock, motive power, and other equipment; the improvement of the efficiency of operation; and its financial recovery. The main components of the Project are: an increase in station and line capacity and improvements in signalling; acquisition of rolling stock, diesel and electric locomotives, spare parts and repair facilities; track renewal and improvement; bridge strengthening; completion of electrification of 71 km of industrial lines; and other miscellaneous items. This Loan is not yet effective.

LOAN AND PROJECT SUMMARY

Korea Development Financing Corporation

Borrower: Korea Development Finance Corporation (KDPC)

Amount: \$55.0 million

Terms: The proposed loan will bear interest at 8-1/2 percent per annum. Amortization to conform substantially to the aggregate of the amortization schedules applicable to the specific investment projects financed out of the proceeds of the proposed loan. The maximum repayment period would be 18 years, including three years of grace.

Purpose: The proposed loan would be used to help cover the foreign exchange requirements of industrial sub-projects to be financed by KDPC.

<u>Estimated</u> <u>Disbursement:</u>	<u>Calendar Year</u>	<u>US\$ Million</u>
	1975	0.5
	1976	24.2
	1977	27.0
	1978	3.3

Appraisal Report: 739-KO, dated June 25, 1975

